

University of Hawai'i Federal Credit Union Corporate Credit Unions

Comment Period Ends: April 6, 2009

I. Role of Corporates in the Credit Union System

- a. Payment System: Currently, payment systems offered by corporates are coupled with other services.
 - i. Should payment services be isolated from other services to separate the risks? If so, how is this best achieved?
 - No, similar to natural person credit unions, corporates have to engage in other services to generate sufficient revenue. Therefore, having a balance of services would allow natural person credit unions to be better served.
 - ii. For example, would it be better to establish a charter for corporates whereby a corporate's authority is strictly limited to operating a payment system, with no authority to engage in other services, such as term or structured investments?
 - We want corporates to have the flexibility to engage a variety of services to better serve natural person credit unions.
 - iii. Should a separate charter be available for corporates that want to provide investment services?
 - No.
 - iv. Should NCUA establish a legal and operational firewall between payment system services and other services?
 - No, restricting the corporate services may place an undue burden on their ability to generate revenue.
 - v. Are there sufficient earnings potential in offering payment systems to support a limited business model that is restricted to payment services only?
 - No, we do not feel there is a sufficient earnings potential to support a limited business model for payment systems.

Note: Without specific information on each corporates individual services business model, we are not able to elaborate further.

- b. Liquidity and Liquidity Management: A vital role of corporates is to fulfill the liquidity needs of their members. Thus, it is crucial that corporates properly consider their investment position relative to their cash flow needs.

- i. Should liquidity be considered a core service of the corporate system? If so, what steps should be taken, and by whom, to preserve and defend the liquidity function?
 - Yes, liquidity is a core service of the corporate system. All natural person credit unions should be encouraged to invest in the corporates.

Note: Each corporate should decide specific steps to preserve and defend their liquidity requirements.

- ii. For example, should NCUA consider limiting a corporates ability to offer other specific types of products and services in order to preserve and defend the liquidity function?
 - No, we don't believe corporates should be restricted to specific types of products and services.
 - iii. What specific types of products and services should corporates be authorized to provide?
 - Corporates should be allowed to provide any products and services that is beneficial to natural person credit unions and complies with all rules and regulations.
- c. Field of Membership Issues: NCUA is questioning whether the allowance of national FOMs for corporates has resulted in significant, and unforeseen, risk taking.
- i. Should NCUA return to defined FOMs, for example, state or regional FOMs?
 - No, a corporates field of membership was not the cause of the current financial crisis.
- d. Expanded Investment Authority: Currently, corporates meeting certain criteria can qualify for expanded investment authority; such as authority to purchase investments with relatively lower credit ratings than otherwise permissible under the rule.
- i. Does the need for expanded authorities continue to exist? If so, should NCUA modify the procedures and qualifications, such as higher capital requirements? If so, what should the new standards be?
 - Yes, if the corporates meet the criteria for expanded investment authority.
 - ii. Should NCUA reduce the expanded authorities available? If so, which ones? Alternatively, should any of the limits in existing expanded authorities be reduced or increased? If so, which ones? Once granted, should NCUA require periodic requalification for expanded authorities? If so, what should be the timeframe?
 - We defer to NCUA with input from the corporates.
- e. Structure; Two-Tiered System: NCUA solicits comment on whether the current two-tier corporate system meets the needs of credit unions.

Specifically, NCUA seeks input on whether there is a continuing need for a wholesale corporate credit union.

- i. If so, what should be its primary role?
 - Central liquidity. US Central provides economies of scale for other corporates.
- ii. Should there be a differentiation in powers and authorities?
 - No comment.
- iii. Does the current configuration result in an inappropriate transfer of risk from the retail corporates to the wholesale corporate?
 - No.
- iv. Assuming the two-tiered system is retained, should capital requirements and risk measurement criteria (e.g., net asset value volatility), as well as the range of permissible investments, for the wholesale corporate be different from those requirements that apply to a retail corporate?
 - Yes.

II. **Corporate Capital:** NCUA is considering revising certain definitions and standards for determining appropriate capital requirements for corporates. In addition to the questions below feel free to comment on any revisions NCUA should consider for the definition and operation of membership capital.

a. Core Capital: Currently, core capital is defined as retained earnings plus paid-in capital.

- i. Should NCUA establish a new capital ratio for corporates consisting only of core capital, and if so, what would be an appropriate level?
 - No. The current capital ratio standard for corporate credit unions appears to be sufficient.
- ii. What actions are necessary to enable corporates to attain a sufficient core capital ratio as described above?
 - No comment.
- iii. What should be an appropriate timeframe for corporates to attain sufficient capital?
 - No comment.
- iv. How much emphasis should be placed on generating core capital through undivided earnings?
 - N/A.
- v. Should a corporate be required to limit its services only to members maintaining contributed core capital with the corporate?
 - No.

b. Membership Capital

- i. Should NCUA continue to allow membership capital in its current configuration, or should it eliminate or modify certain features, such as the adjustment feature, so that membership capital meets the traditionally accepted definition of tier-two capital?

- Yes.
- ii. Should the adjusted balance requirements, currently in §704.3(b)(8), be tied only to assets, and should limits be imposed on the frequency of adjustments?
 - The adjusted balance requirements should continue to be determined by each corporate credit union.
- iii. Should there be a requirement that any attempted reduction in membership capital based on downward adjustment automatically result in the account being placed on notice, within the meaning of §704.3(b)(3), so that only delayed payout after the three-year notice expires is permissible?
 - No.
- iv. Should there be a requirement that any withdrawal of membership capital be conditioned on the corporate's ability to meet all applicable capital requirements following withdrawal?
 - No.
- c. Risk-Based Capital and Contributed Capital Requirements
 - i. Should NCUA consider risk-based capital for corporates consistent with that currently required of other federally regulated financial institutions?
 - Yes, NCUA should consider and implement risk-based capital for corporates consistent with that currently required of natural person credit unions.
 - ii. What regulatory and statutory changes, if any, would be required to effectuate such a change?
 - See above.
 - iii. Should a natural person credit union be required to maintain a contributed capital account with its corporate as a prerequisite to obtaining its services?
 - No.
 - iv. Should contributed capital be calculated as a function of share balances maintained with the corporate? What about using asset size?
 - No. No.

III. **Permissible Investments:** Currently, corporates have the authority of purchase and hold investments that would not be permissible for natural person credit unions. Thus, a member of a corporate is indirectly exposed to any risky investments held by the corporate.

- a. Should corporate investment authorities be limited to those allowed for natural person credit unions?
 - No.
- b. Should certain categories, or specific, investments be prohibited? (For example: collateralized debt obligations, net interest margin securities, and subprime and Alt-A asset-backed securities).

- No. Corporates should be allowed to invest in any securities allowed under current regulation.
- IV. **Credit Risk Management:** With many questioning the reliability of credit ratings for investments, NCUA is considering limiting the extent to which a corporate may focus on ratings provided by Nationally Recognized Statistical Rating Organizations (NRSROs).
- a. Should NCUA require more than one rating for an investment, or require that the lowest rating meet the minimum rating requirements of Part 704?
 - No.
 - b. Should additional stress modeling tools be required in the regulation to enhance credit risk management?
 - No.
 - c. Should Part 704 be revised to provide specific concentration limits, including sector and obligor limits? If so, what specific limits would be appropriate for corporates?
 - No.
 - d. Should corporates be required to obtain independent evaluations of credit risk in their investment portfolios? If so, what would be appropriate standards for these contractors?
 - No, however, it would be prudent for corporates to voluntarily obtain independent evaluations of credit risks in their respective portfolios.
 - e. Should corporates be required to test sensitivities to credit spread widening, and if so, what standards should apply to that effort?
 - It should not be required. However, these are prudent steps to obtain critical information about a corporates investment portfolio.
- V. **Asset Liability Management:** NCUA is considering reinstating the requirement that corporates perform net interest income modeling and stress testing. Alternatively, NCUA may consider some form of mandatory modeling and testing of credit spread increases.
- a. Should NCUA require corporates to use monitoring tools to identify these types of trends? What, if any, tangible benefits would flow from these types of modeling requirements?
 - Yes, it would give the corporate credit unions as well as NCUA a better sense of how the corporate investments are performing.
- VI. **Corporate Governance:** Due to the sophistication and far-reaching impact of corporate activities, NCUA is considering several changes to corporates' boards.
- a. Should NCUA establish minimum standards for directors in regard to their level of experience and independence?
 - No, the specific standards should be left to the corporates to decide.

- b. Should “outside directors” be allowed? (I.e., those who are not officers of that corporate, officers of member natural person credit unions, and/or individuals from entirely outside the credit union industry).
 - Yes, it should be allowed but not mandated by NCUA. It could be beneficial for outside directors to provide perspective to various issues.
- c. Is the current structure of retail and wholesale corporate credit union boards appropriate given the corporate business model?
 - The size and composition of a corporate board should be determined by its membership.
- d. Should a wholesale corporate credit union be required to have some directors from natural person credit unions?
 - Yes.
- e. Should NCUA impose term limits on corporate directors, and, if so, what should the maximum term be?
 - This should be left up to the individual corporate credit unions.
- f. Should corporate directors be compensated, and, if so, should such compensation be limited to outside directors only?
 - No.
- g. Should NCUA allow members of corporates greater access to salary and benefit information on senior management?
 - No.

VII. **Other Comments:** NCUA also seeks comment on any other relevant issues pertaining to corporate credit unions that have not been addressed in this ANPR.